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SUBJECT: DPM SALIH REVIEWS COMPACT DEALS

1. (SBU) Deputy Prime Minister Barham Salih described to Treasury Attache on April 29 the results of a number of GOI efforts to engage the international community in advance of the launch of the International Compact on May 3 in Sharm el-Sheikh. These efforts have produced good progress securing agreements to send ministerial-level delegations from most of the countries targeted apart from Russia (and Japan, because of a prior commitment to meet with Russia on May 3). Some progress lining up specific commitments to debt relief or new concessional lending that can be announced on May 3 has also been made. During the last week, Prime Minister Maliki visited Egypt and Kuwait (King Abdullah of Saudi Arabia declined Maliki's request for a meeting), Central Bank Governor Shabibi and UN Special Representative Gambari visited the UK, Kuwait, Bulgaria and Brussels and Foreign Minister Zebari visited Iran and Turkey. Deputy Prime Minister Barham Salih made calls to or met with ambassadors from the EU/EC, Italy, Russia and Turkey, among others. Finance Minister Jabr met with China's ambassador, directed Iraq's ambassador to Russia to engage Russia's Ministry of Foreign Affairs and wrote to Egypt's Minister of Finance. The status of these key countries and institutions is now as follows:

2. (SBU) Russia: Despite some potentially encouraging signals reported by Iraq's ambassador in Russia, Foreign Minister Lavrov has most recently indicated that he will not attend the May 3 meeting, nor has Russia signaled any greater willingness to sign a long completed bilateral debt agreement implementing its agreement to the November 2004 Paris Club Agreed Minute.

3. (SBU) China: In a meeting on Saturday with DPM Salih, China's ambassador to Iraq confirmed that newly named Foreign Minister Yang Jiechi will attend on May 3. Apart from a suggestion last week that China might be willing to cancel 100% of "governmental" debt claims totaling only \$3-7 million, China has not given any indication that it is prepared to accept debt reduction consistent with Paris Club terms (i.e., 80%) for the estimated \$7 billion in "commercial" debt claims.

4. (SBU) Turkey: Following his trip this week to Ankara, Foreign Minister Zebari reported that Foreign Minister Gul told him that while he will not be able to attend due to the upcoming elections, another minister will lead Turkey's delegation. (In light of this, Zebari also asked Gul to persuade Syria to also send a minister.) Although DPM Salih told us that Zebari's briefing materials included points on debt relief, we have not been able to confirm if Zebari raised the issue or what Turkey's response was. However, DPM Salih reports receiving generally cooperative signals on 80% debt relief.

5. (SBU) Egypt: The Foreign Minister's attendance has been known for some time. On debt relief, Iraqi Minister of Finance Jabr sent Egyptian Minister of Finance Boutros-Ghali a letter seeking to confirm agreement on a proposal the two

discussed the previous week in Washington by which Egypt would agree to cancel 100% of its debt claims in exchange for Iraq agreeing to repay 50% of the principal of some non-debt claims stemming from the Saddam regime's theft of remittances by Egyptian laborers working in Iraq. As of April 29, Jabr had not been able to reach Boutros-Ghali to follow up, and reporting from other channels indicates that the deal Jabr and Boutros-Ghali discussed in Washington may not be supported at higher levels of the Egyptian government. Jabr told Treasury Attache that he will now ask DPM Salih or Vice President Abdul Mahdi to follow up on the matter. Jabr indicated that the GOI is prepared to make a more generous offer on the worker remittance claims (perhaps agreeing to pay up to 100% of the worker remittance claims) in the interest of reaching agreement with Egypt on a settlement that could be announced on May 3.

¶6. (SBU) Bulgaria: Ambassador Crocker confirmed in a separate meeting that Bulgaria's Foreign Minister will attend. DPM Salih reports that he has received generally positive signals on debt relief consistent with Paris Club terms, and the Ministry of Finance's debt advisers have confirmed that in technical discussions Bulgaria has appeared seriously interested in an arrangement by which they would be able to sell a bilateral agreement granting 80% debt relief for cash. However, we have no specific information at this time about the commitment that Bulgaria intends to announce.

¶7. (SBU) Poland: Following a meeting with Poland's ambassador to Iraq, DPM Salih reported that Poland's Foreign Minister will attend. He reported positive signals on debt relief but could not say whether Poland is prepared to announce debt relief consistent with Paris Club terms.

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¶8. (SBU) Saudi Arabia: The Foreign Minister's attendance has been known for some time. Saudi Arabia's willingness to cancel 80% of its debt claims was reported in the press last week and subsequently confirmed through other channels. However, on Friday it emerged that one or more officials within the Finance Ministry were raising questions about whether Saudi Arabia had in fact offered to cancel 80% of all debt claims, what the total size of those debt claims is and whether Iraq was prepared to accept a Saudi offer to cancel 80% of its debt (vs. the 100% cancellation that Iraq has long asked for). When these questions were brought to DPM Salih's attention by TreasAtt, DPM Salih reaffirmed that Prime Minister Maliki had overruled those within the GOI arguing for holding out for debt relief more generous than Paris Club terms and taken the decision to accept an 80% offer from Saudi Arabia. Salih said he would make sure that all of the relevant parties within the GOI understood that the PM's decision was authoritative. TreasAtt received a similar assurance from an adviser to Vice President Adil Abdul Mahdi. As for the amount of the debt, press reporting suggests that Saudi Arabia's current estimate of the Saudi claims is \$15-18 billion, which is broadly consistent with the Iraqi technical team's belief that the amount is \$15.7 billion. (A Saudi announcement of 80% debt relief at Sharm el-Sheikh can be made subject to more detailed reconciliation of the debt claims.)

¶9. (SBU) Arab Fund for Economic and Social Development: In their initial meeting with the Arab Fund in Kuwait, Governor Shabibi and UN Special Advisor Gambari received general statements of support but were told that the Arab Fund would not announce a specific amount for a new concessional lending program until Iraq agreed in writing to a plan to repay its arrears to the Arab Fund. The Prime Minister subsequently announced publicly that Iraq will honor its obligations to the Arab Fund. Shabibi now plans to go back to the Arab Fund with the Prime Minister's statement. TreasAtt has also asked DPM Salih if it is possible to have the arrears clearance agreement signed before May 3.

¶10. (SBU) EU/EC: Governor Shabibi reports that Solana will attend. While he believes they will make a supportive statement on May 3 (possibly including encouragement for creditors to consider converting some or all of the 20% remaining debt into equity), he did not have any specific information about the commitments that will be announced.

¶11. (SBU) Information on key messages for the International Compact and suggested follow-on actions will be included in septel.
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